



Center for Community Change

July 8, 1997

John P. Galligan, Director
Card Technology Service
Financial Management Service
US Department of the Treasury
Room 526
Liberty Center
401 14th Street, SW
Washington, DC 20227

Re: 31 CFR Part 207; Notice of Proposed Rulemaking on Electronic Benefits Transfer

Dear Mr. Galligan:

These comments are submitted on behalf of the Center for Community Change. The Center is national, not-for-profit organization that works with grassroots community organizations in low income and minority areas across the country. For more than 20 years, we have been helping groups that seek to increase the flow of credit and the availability and affordability of banking services in their local communities.

The proposed rule that was published in the May 9, 1997 Federal Register (62 FR 25572) raises a series of consumer protection issues that are of concern to the Center and the low income community groups with which we work. These issues are spelled out in a comprehensive fashion in the comments, which we support, submitted by the National Consumer Law Center.

However, we would like to focus on another issue of great concern, namely the implications of this proposal for the ability of low income recipients of federal benefits to gain access to affordable banking services.

When the EBT/EFT '99 initiative was first announced, both Treasury Secretary Robert Rubin and Comptroller of the Currency Eugene Ludwig hailed this as an unprecedented opportunity to bring millions of lower income Americans into the financial services mainstream. This is a goal we fully support, and which we have been working toward through various means for more than two decades.

Our experience has led us to the conclusion that this goal will not be realized unless the Treasury Department takes specific steps to bring it about. Simply establishing an account at a financial institution and giving recipients electronic access to their funds will not, by itself, lead to the development of a banking relationship. Nor will it minimize the expense and danger that unbanked recipients of federal benefits currently experience in the process of cashing their checks

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and paying their monthly bills. Left to their own devices, it is likely that banks will design a system that discourages EBT recipients from entering bank branches, opening checking or savings accounts, obtaining loans, or taking advantage of other banking services. Unless Treasury intervenes, we will end up with a system where individuals use their Benefit Security card to obtain cash, and then go to a check cashing store to buy money orders, pay bills, obtain loans, and carry out other financial transactions at great expense and considerable risk. In other words, there will be no change to the status quo, except that people will be put through the additional step (and potentially the additional expense), of obtaining their funds electronically before they carry out their normal financial business.

We believe that there are a number of specific issues that must be addressed in the design of the EBT program in order to achieve the goal of bringing recipients into the financial mainstream. These include:

1. **Convenient access** - many insured depository institutions do not have branches, or even ATMs in low and moderate income communities. In weighing the proposals it receives from lenders who want to contract with the Treasury Department to provide EBT services, great weight should be given to the branch network of the competing institutions and the extent to which that network matches up with the location of the recipients of benefits. ATM coverage may also be considered, but should not be a substitute for branch locations. You can't open a bank account at an ATM. In most cases, you can't get a loan at an ATM. If we really want to foster banking relationships, recipients must have access to those banking facilities where a full range of banking services are provided.
2. **Affordable access** - another major issue for low income recipients is the cost they will bear to gain access to their benefits electronically. Limits must be set on the fees that recipients can be charged to access their benefits in this fashion. Of particular concern are cases where recipients are forced to use "foreign" ATMs, because the bank with the EBT contract does not have its own ATMs in the neighborhood. In these cases, recipients may be forced to pay fees to the bank which holds their benefits *and* to the ATM network. These fees can be substantial, especially if people make a series of withdrawals over the course of the month because they don't have access to affordable checking accounts and don't want to carry too much cash at any time. Therefore, another major set of considerations in awarding EBT contracts should be the extent of the bank's own ATM network, the fees it will charge for withdrawals, and the ability of recipients to access their funds through foreign ATMs without incurring excessive additional charges.
3. **Availability of affordable bank accounts** - providing affordable and convenient electronic access to federal benefits is important, but it is not sufficient. Unless the EBT package includes access to affordable banking accounts, recipients will still be forced into the cash economy, where they must pay excessive amounts for basic financial transactions, face extraordinarily high interest rates on loans, and have no opportunity to save and earn interest on their funds. *Affordable banking accounts must have no or low opening and minimum balance requirements, allow a reasonable number of checks per month, allow a reasonable number of ATM withdrawals and inquiries per month, have low or no fees, and provide access to savings opportunities.* Reasonable, in this case, should be based on a realistic assessment of the number of financial

transactions that a typical benefit recipient has in the course of a month: for housing, utilities, groceries, medical expenses, and the like. Further, these should be accounts into which benefits recipients can deposit other funds, so that if they have more than one source of income, they can manage all of their income in a convenient manner. If they can access their federal benefits electronically but still have to go to a check cashing store to cash other checks, they will be no better off than they are now.

Access to affordable bank accounts is the single most critical element of the EBT program for low and moderate income recipients who are currently "unbanked." The Treasury Department should condition the award of contracts under the EBT program on the willingness of the participating financial institutions to provide these accounts and the quality of the accounts offered. If necessary, Treasury should use some of the estimated \$100 million in cost savings that the government will realize each year to subsidize these accounts. This would be a small price to pay to achieve the goal stated by Secretary Rubin and Comptroller Ludwig, and would be more than offset by the benefit to the economy, the banking industry, and our society of bringing the 10 million unbanked recipients of federal benefits into the financial services mainstream. If Treasury should decide not to make access to affordable banking services a requirement for banks that seek to provide EBT services, then the banks' willingness to offer these services, and the quality of the accounts they offer, should be given the greatest weight in awarding contracts.

We urge you to use your authority to make sure that the full potential of the EBT program is achieved. Thank you for your consideration of these comments.

Sincerely,


Deborah Goldberg

Neighborhood Revitalization Project